



## **Executive Summary**

El Salvador is eager to attract greater foreign investment and is taking steps to improve its investment climate. In recent years, El Salvador has lagged the region in terms of attraction of Foreign Direct Investment (FDI). The Central Bank of El Salvador reported that FDI reached just \$140.0 million in 2013, a 71 percent decline from the \$481.9 million received in 2012. Political uncertainty, burdensome commercial regulations, a sometimes ineffective judicial system, and widespread violent crime are often cited as elements that impede investment in El Salvador.

In 2011, El Salvador and the United States initiated the Partnership for Growth (PFG), a new cooperative development model, to help improve El Salvador's economy and investment climate. November 2013 marked the second anniversary of PFG implementation, and the partnership has taken steps to foster a more favorable environment for business and investment, and improve human capital and infrastructure. For more information on PFG, please access the link on the Embassy's website at <http://sansalvador.usembassy.gov/>.

CAFTA-DR, the free trade agreement among Central American countries, the Dominican Republic, and the United States, entered into force for the United States and El Salvador in 2006. El Salvador also has free trade agreements with Mexico, Chile, Panama, Colombia, and Taiwan. All have entered into force with the exception of the FTA with Colombia which is expected to be activated soon. El Salvador, jointly with Costa Rica, Guatemala, Honduras, Nicaragua, and Panama, signed an Association Agreement with the European Union that includes the establishment of a Free Trade Area. El Salvador is also negotiating trade agreements with Canada, Peru, and Belize.

In October 2012, the Salvadoran government presented to the Legislative Assembly a package of legislation to promote investment and facilitate commerce. Some of these laws have been passed including reforms to the International Services Law and Free Trade Zone Law, and the Construction Simplification Law. In April 2014, the Legislative Assembly approved reforms to address shortcomings in a Public-Private Partnership (PPP) Law that was originally passed in May 2013. The law and associated reforms were designed to provide a legal framework for the development of PPP projects and create a more suitable environment for investment.

### **1. Openness To, and Restrictions Upon, Foreign Investment**

El Salvador is eager to attract greater foreign investment and is taking steps to improve its investment climate. The Central Bank of El Salvador reported that foreign direct investment (FDI) reached just \$140.0 million in 2013, a 71 percent decline from the \$481.9 million received in 2012. Meanwhile, El Salvador's regional neighbors have experienced generally increasing levels of FDI in recent years, attracting on average more than \$1.4 billion per country in 2013.



Political uncertainty, inconsistent and burdensome commercial regulations, a sometimes ineffective judicial system, and widespread violent crime undermine El Salvador's investment climate. CAFTA-DR, the free trade agreement among Central American countries, the Dominican Republic, and the United States, includes an investment chapter and other provisions that have strengthened investment dispute resolution for member state companies with interests in El Salvador.

In 2011, El Salvador and the United States initiated the Partnership for Growth (PFG), a new cooperative development model that aligns complementary commitments by both governments. November 2013 marked the second anniversary of PFG implementation, and the partnership has taken steps to foster a more favorable environment for business and investment, and improve human capital and infrastructure. For more information on PFG, please access the link on the Embassy's website at <http://sansalvador.usembassy.gov/>.

In October 2012, the Salvadoran government presented to the Legislative Assembly a package of legislation to promote investment and facilitate commerce. Some of these laws have been passed including reforms to the International Services Law and Free Trade Zone Law, and the Construction Simplification Law. Other key proposed legislation such as the Judicial Stability Law for Investments and Electronic Signature Law have not been passed.

In April 2014, the Legislative Assembly approved reforms to address shortcomings in the country's Public-Private Partnership (PPP) Law which was originally passed in May 2013. The law and associated reforms were designed to provide a legal framework for the development of PPP projects and create a more suitable environment for investment.

The existing 1999 Investment Law grants equal treatment to foreign and domestic investors. With the exception of micro businesses (ten or fewer employees and sales of less than \$68,571/year), foreign investors may freely establish businesses in El Salvador. Investors who begin operations with ten or fewer employees must present plans to increase employment to the Ministry of Economy's National Investment Office (ONI). The Investment Law also provides that underground resources (minerals) belong to the state. The state may grant concessions for their extraction, but there have been no new permits for mineral extraction in recent years. Per the constitution, rural property cannot be acquired by foreigners from countries where Salvadorans do not enjoy the same right unless it is used for industrial purposes.

Additional statutes governing foreign investment in El Salvador include the Export Reactivation Law, the International Services Law, and Free Trade Zone Law. Other statutes establishing the basic legal framework for investment include the Public Private Partnership Law, Monetary Integration Law, Banking Law, Insurance Companies Law, Securities Market Law, Competition Law, Tourism Law, intellectual property laws, and special legislation governing privatizations and credit cards.



FDI inflows to El Salvador originate from across the globe, including from the United States, Panama, Mexico, Spain, Canada, Costa Rica, Guatemala, Germany, and Italy, and target a variety of sectors of the economy.

*Aeronautics:* For the past several years El Salvador has promoted itself as a promising logistics and transportation center and aeronautics cluster for the region. El Salvador's international airport is a hub for Colombian airline, Avianca, and home to an international commercial aircraft maintenance, repair and overhaul facility, Aeroman. The government is developing plans to modernize and expand El Salvador's international airport.

*Banking:* El Salvador's banking sector includes a high concentration of foreign ownership. Ten private sector banks (non-state owned) account for roughly 95 percent of the industry's loan portfolio, two state-owned banks hold about 4 percent, and seven cooperatives and savings and loans make up the rest.

**TABLE 1: El Salvador's Lending Institutions (excluding Salvadoran cooperatives and savings and loans)**

<b>Ranking (based on outstanding loans)</b>	<b>Banking Institution</b>	<b>Ownership</b>
1	Banco Agrícola, S.A.	Private, Colombian
2	Scotiabank El Salvador, S.A.	Private, Canadian
3	Banco Davivienda Salvadoreño, S. A.	Private, Colombian
4	Banco Citibank de El Salvador, S.A.	Private, United States
5	Banco de América Central, S.A.	Private, Colombian
6	Banco Promérica, S.A.	Private, Salvadoran
7	Banco Hipotecario de El Salvador, S.A.	State-owned, Salvadoran
8	Banco G&T Continental El Salvador, S.A.	Private, Guatemalan
9	Banco Procredit, S.A.	Private, Salvadoran
10	Banco de Fomento Agropecuario	State-owned, Salvadoran
11	Banco Industrial El Salvador, S.A.	Private, Guatemalan
12	Banco Azteca El Salvador, S.A.	Private, Mexican

*Construction:* The Construction Permit Simplification Law, approved by the Legislative Assembly in October 2013, reduces processing costs and waiting times for permits (environmental, public works, municipal offices, etc.) for real estate developers by providing a



one-stop window for all processes and permits. It also establishes a time horizon by which the government entities must react to a permit application or the permit will be considered approved.

*Energy:* To address the country's high electricity costs and growing energy needs, El Salvador awarded a contract in December 2013 to a local consortium to build a 355 megawatt Liquefied Natural Gas (LNG) plant near the Port of Acajutla. This estimated \$1 billion project would increase the country's total energy generation capacity by 20 percent and, if completed on schedule, would be operational by 2018. In 2013, El Salvador launched two renewable energy solicitations for 15 megawatts and 100 megawatts of solar and wind projects to diversify its energy matrix and reduce the country's dependence on fuel oil. A major international energy company has an ongoing dispute with the Salvadoran government over its geothermal operations in El Salvador (see section "Competition from State Owned Enterprises").

*Media and Telecommunications:* Privatization and foreign investment have helped to modernize Salvadoran media and telecommunications. The only remaining restrictions for foreign investors are on free reception television and AM/FM radio broadcasting, where foreign ownership cannot exceed 49 percent of equity. There has been extensive growth in the cellular phone industry. In 2012, Mexican-owned America Móvil attempted to expand its operations by purchasing one of the five major service providers, but abandoned its bid after the Salvadoran anti-trust authority required it give up some of its existing spectrum. Additionally, El Salvador is making preliminary plans to switch to digital television.

*Services:* The January 2013 reforms to the International Services Law added industries eligible for special incentives: container repair and maintenance, technology equipment repair, elderly and convalescent care, telemedicine, and cinematography. The reforms also allow operation outside of designated service parks and free zones and provide additional incentives for existing firms that expand into new services. The call center industry has experienced particularly strong growth in El Salvador over the last several years. Currently, five of the country's top 25 employers (based on number of employees) are call centers. The government is also promoting other service sectors such as software design and animation, architectural design, and medical tourism.

*Textiles, Apparel, and free trade zone activities:* El Salvador's free trade zones host many international textile and apparel firms, including Fruit of the Loom and Hanesbrands. The February 2013 reforms to the Free Trade Zone Law made it compliant with World Trade Organization (WTO) regulations. The reforms eliminate permanent tax exemptions based on export performance and instead grant tax credits based on number of employees and investment levels.

**TABLE 2: El Salvador's Economic Rankings**

Measure	Year	Ranking /	Website Address
---------	------	-----------	-----------------



		Score	
WEF Global Competitiveness	2013	97 out of 148	<a href="http://www3.weforum.org/docs/GCR2013-14/GCR_Rankings_2013-14.pdf">http://www3.weforum.org/docs/GCR2013-14/GCR_Rankings_2013-14.pdf</a>
Transparency Int'l Corruption Index	2013	83 out of 177	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2014	59 out of 178	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank's Doing Business Report	2014	118 out of 189	<a href="http://www.doingbusiness.org/rankings">http://www.doingbusiness.org/rankings</a>

**TABLE 2B** – Scorecards: The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform produced scorecards for countries with a 2012 per capita gross national income (GCI) of \$ 4,085 or less. A list of countries with MCC scorecards and links to those scorecards is available here: <http://www.mcc.gov/pages/selection/scorecards>. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: <http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf>.

## 2. Conversion and Transfer Policies

There are no restrictions on transferring funds associated with investment out of the country. Foreign businesses can freely remit or reinvest profits, repatriate capital, and bring in capital for additional investment. The 1999 Investment Law allows unrestricted remittance of royalties and fees from the use of foreign patents, trademarks, technical assistance, and other services. Tax reforms introduced in 2011, however, levy a five percent tax on national or foreign shareholders' profits. Moreover, shareholders domiciled in a state, country or territory with low or no taxes or that is considered a tax haven, will instead be subject to a tax of twenty-five percent.

The Monetary Integration Law dollarized El Salvador in 2001, and the U.S. dollar now freely circulates and can be used in all transactions. One objective of dollarization was to make El Salvador more attractive to foreign investors. U.S. dollars account for nearly all currency in circulation. Salvadoran banks, in accordance with the law, must keep all accounts in dollars. Dollarization is supported by family remittances -- almost all from the United States -- that totaled \$4 billion in 2013.

## 3. Expropriation and Compensation

El Salvador's 1983 constitution allows the government to expropriate private property for reasons of public utility or social interest, and indemnification can take place either before or





after the fact. There are no recent cases of expropriation. In 1980, a rural/agricultural land reform established that no single natural or legal person could own more than 245 hectares (605 acres) of land, and the government expropriated the land of some large landholders. While banks were nationalized in 1980, beginning in 1990 they were returned to private ownership. A 2003 amendment to the 1996 Electricity Law contains a provision that, while not authorizing expropriation, requires energy generating companies to obtain government approval before removing fixed capital from the country. According to the Salvadoran government, this provision is intended to prevent energy supply disruptions.

In 2009, the U.S. subsidiary of Pacific Rim, a Canadian mining company, filed an international arbitration proceeding against the Salvadoran government alleging various violations of the obligations in Chapter Ten of the CAFTA-DR. Pacific Rim (since purchased in November 2013 by OceanaGold Corporation headquartered in Australia) alleged that the Salvadoran government wrongfully refused to grant environmental permits for its mineral extraction projects. In June 2012, the CAFTA-DR claims were dismissed because the International Center for Settlement of Investment Disputes (ICSID) tribunal determined the U.S. subsidiary lacked substantial business activities in the United States to qualify as a party under CAFTA-DR. The tribunal found, however, that it did have jurisdiction to proceed on an evaluation of the merits of the firm's claims under Salvadoran investment law. The case is ongoing.

#### **4. Dispute Settlement**

While foreign investors can seek redress of commercial disputes through Salvadoran courts, some investors have found the slow-moving domestic legal system to be costly and unproductive. The course of some cases has shown that the legal system is subject to manipulation by various interests, and final rulings are sometimes not enforced. Where possible, arbitration clauses, preferably with a foreign venue, should be included in commercial contracts as a means to resolve business disputes. Investors should make sure that all contracts are carefully drafted and that relationships with local firms are specifically defined. Some U.S. firms have been embroiled in legal disputes in recent years. In some cases, multinational firms asserted that a contract with a Salvadoran firm had either formally ended or never existed, but Salvadoran courts ruled that the contract remained in force. Local investment and commercial dispute resolution proceedings in El Salvador routinely last many years.

El Salvador's commercial law is based on the Commercial Code and the Code for Mercantile Processes. There is a mercantile court system for resolving commercial disputes, although parties have complained about its slow processes and erratic rulings, particularly at the Supreme Court level. The Commercial Code, Code of Mercantile Processes, and Banking Law contain sections that deal with bankruptcy but there is no separate bankruptcy law or court. In 2008, the Legislative Assembly passed several reforms to the Commercial Code and the Commerce Registry Law. The reforms were aimed to facilitate trade and investment by reducing the number of steps and requirements to register, develop, and close a business. As a result of the reforms, all documents and payments can be submitted electronically to the Commerce Registry.



Article 15 of the 1999 Investment Law was reformed in August 2013. As revised, the law limits the access of foreign investors originating from a country without a pre-existing trade agreement to international dispute resolution and may oblige them to use national courts. The rights of investors from CAFTA-DR countries appear to be protected under the trade agreement's dispute settlement procedures. Submissions to national dispute panels and panel hearings are open to the public, and interested parties have the opportunity to register their views. In addition, in 2002, the government approved a law that allowed private sector organizations to establish arbitration centers for the resolution of commercial disputes, including those involving foreign investors.

In 2009, El Salvador modified its arbitration law to allow parties to arbitration disputes the ability to appeal a ruling to the Salvadoran courts. Investors have complained that the modification dilutes the fundamental efficacy of arbitration as an alternative method of resolving disputes.

## **5. Performance Requirements and Investment Incentives**

El Salvador's Investment Law does not require investors to meet export targets, transfer technology, incorporate a specific percentage of local content, or fulfill other performance criteria. Foreign investors and domestic firms are eligible for the same incentives. Exports of goods and services are levied zero value added tax.

The 1998 Free Trade Zone Law is designed to attract investment in a wide range of activities, although at present the vast majority of the businesses in export processing zones are clothing assembly plants. A Salvadoran partner is not needed to operate in a free trade zone, and some textile operations are completely foreign-owned.

The 1998 law established rules for export processing zones (free zones) and bonded areas. The free zones are outside the nation's customs jurisdiction while the bonded areas are within its jurisdiction but subject to special treatment. Local and foreign companies can establish themselves in a free zone to produce goods or services for export or to provide services linked to international trade. The regulations for the bonded areas are similar.

The February 2013 reforms to the Free Trade Zone Law made it compliant with World Trade Organization (WTO) regulations. The reforms eliminate permanent tax exemptions based on export performance and instead grant tax credits based on number of employees and investment levels. Qualifying firms located in the free zones and bonded areas may enjoy the following benefits:

- a. Exemption from all duties and taxes on imports of raw materials and the machinery and equipment needed to produce for export;



## U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

- b. Exemption from taxes for fuels and lubricants used for producing exports if these are not domestically produced;
- c. Exemption from income tax, municipal taxes on company assets and property; the exemptions are for 15 years if the company is located in the metropolitan area of San Salvador and for 20 years if the company is located outside of the metropolitan area of San Salvador. After that, the user would still be able to obtain partial exemptions.
- d. Exemption from taxes on real estate transfers for the acquisition of goods to be employed in the authorized activity.

Companies in the free zones are also allowed to sell goods or services in the Salvadoran market if they pay applicable taxes for the proportion sold locally. Additional rules apply to textile and apparel products.

Under the 1990 Export Reactivation Law, firms were able to apply for tax rebates ("drawbacks") of six percent of the FOB value of manufactured or processed exports shipped outside the Central American Common Market area. This benefit was eliminated in 2011. However, later that same year the Salvadoran government approved new regulations to support producers. The regulations include a new form of "drawback," approved by the World Trade Organization (WTO), which consists of a refund of custom duties paid on imported inputs and intermediate goods exclusively used in the production of goods exported outside of the Central American region. The new regulations also include the creation of a Business Production Promotion Committee with the participation of the private and public sector to work on policies to strengthen the export sector, and the creation of an Export and Import Center. Since 2011, all import and export procedures are handled by the Export and Import Center. More information about the procedures can be found at: <https://www.centrex.gob.sv/>

The International Services Law, approved in 2007, establishes service parks and centers with incentives similar to those received by El Salvador's free trade zones. Service park developers may be exempted from income tax for 15 years, municipal taxes for ten years, and real estate transfer taxes. Service park administrators will be exempted from income tax for 15 years and from municipal taxes for ten years. Firms located in the service parks/service centers may receive the following permanent benefits:

- a. Tariff exemption for the import of capital goods, machinery, equipment, tools, supplies, accessories, furniture and other goods needed for the development of the service activities (goods and services such as food and beverages, tobacco products, alcoholic beverages, rental fees, home equipment and furniture, cleaning articles, luxury goods, transportation vehicles, and hotel services are not exempted from taxation);
- b. Full and indefinite exemption from income tax and municipal taxes on company assets.





Service firms operating under the existing Free Trade Zone Law are also covered. However, if the services are provided to the Salvadoran market, they cannot receive the benefits of the International Services Law.

The following services are covered under the International Services Law: international distribution, logistical international operations, call centers, information technology, research and development, marine vessels repair and maintenance, aircraft repair and maintenance, entrepreneurial processes (i.e., business process outsourcing), hospital-medical services, international financial services, container repair and maintenance, technology equipment repair, elderly and convalescent care, telemedicine, and cinematography postproduction services.

To qualify for benefits, businesses must invest at least \$150,000 during the first year of operations, including working capital and fixed assets, must hire no fewer than 10 permanent employees, and must have at least a one-year contract. For hospital/medical services, the minimum investment in fixed assets must be \$10 million if surgical services are provided or a minimum of \$3 million if surgical services are not provided. Hospital or medical services must be located outside of major metropolitan areas. The medical service must also be provided only to patients with insurance.

In 2005, the government approved a tourism law to spur investment in the sector. The law establishes fiscal incentives for those who invest a minimum of \$50,000 in tourism-related projects in El Salvador. Incentives include a ten-year income tax exemption and no duties on imports of capital and other goods, subject to some limitations. The investor also benefits from a five-year exemption from land acquisition taxes and a 50 percent break in municipal taxes. To take advantage of these incentives, the enterprise must contribute five percent of profits during the exemption period to a government-administered Tourism Promotion Fund.

Those who plan to live and work in El Salvador for an extended period will need to obtain temporary residency, which may be renewed periodically. Under Article 11 of the Investment Law, foreigners with investments equal to or more than 4,000 minimum monthly wages (\$969,600) have the right to receive Investor's Residence, permitting them to work and stay in the country. Such residency can be requested within 30 days after the investment has been registered. The residency permit covers the investor and his family and is issued for one year, subject to extension on a yearly basis.

Most companies employ a local lawyer to manage the process of obtaining residency. The American Chamber of Commerce in El Salvador can also help its members with the process. Labor regulations require that 90 percent of the labor force at plants and in clerical jobs be Salvadoran. There are fewer nationality restrictions on professional and technical jobs.

U.S. companies have complained of variable customs valuations and inconsistent enforcement of both customs regulations and CAFTA-DR preferential treatment for goods coming from CAFTA-DR countries aside from the United States. While advances have been made to



implement a fast-track system for shipments via express courier companies, it has not been fully implemented. The clearance procedures for samples which arrive via express shipments are still an ongoing issue.

## **6. Right to Private Ownership and Establishment**

No single natural or legal person--Salvadoran or foreign--can own more than 245 hectares (605 acres). Per the constitution, rural property cannot be acquired by foreigners from countries where Salvadorans do not enjoy the same right unless it is used for industrial purposes. Foreign citizens and private companies can freely establish businesses in El Salvador. The only exception for this is in some cases involving small business. A 2001 fishing law allows foreigners to engage in commercial fishing anywhere in Salvadoran waters providing they obtain a license from CENDEPESCA, a government entity.

## **7. Protection of Property Rights**

Private property, both non-real estate and real estate, is recognized and protected in El Salvador. Companies that plan to buy land or other real estate are advised to conduct a thorough search of the property's title prior to purchase.

In 2005, El Salvador revised several laws to comply with CAFTA-DR's provisions on intellectual property rights (IPR). The Intellectual Property Promotion and Protection Law (1993, revised in 2005), Law of Trademarks and Other Distinctive Signs (2002, revised in 2005), and Penal Code establish the legal framework to protect IPR. Investors can register trademarks, patents, copyrights, and other forms of intellectual property with the National Registry Center's Intellectual Property Office.

Reforms passed in 2005 extended the copyright term from 50 to 70 years. In 2008, the government enacted test data exclusivity regulations for pharmaceuticals and agrochemicals, which will be protected for 5 and 10 years respectively, and ratified an international agreement extending protection to satellite signals.

In March 2012, El Salvador passed a new Medicines Law to regulate the production, sale, and distribution of pharmaceuticals. The law created the National Directorate of Medicines to oversee implementation, including the drafting of new regulations and establishment of price controls on the sale of pharmaceuticals. The new regulations were published by the Directorate in December 2012.

The Attorney General's office and the National Civilian Police enforce trademark and intellectual rights by conducting raids against distributors and manufacturers of pirated CDs, cassettes, clothes, and computer software. The 2005 reforms authorize the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce them. They also allow authorities to initiate these raids ex-officio, and piracy is now punishable by jail sentences



of two to six years. However, using the criminal and mercantile courts to seek redress of a violation of intellectual property is often a slow and frustrating process.

Judiciary and regulatory enforcement continue to be the weakest pillars of intellectual property protection in El Salvador. A significant intellectual property rights case continues to drag through the Salvadoran courts concerning a contractual dispute between McDonald's and an ex-franchisee involving trademark and copyright infringement. In October 2011, the Salvadoran Supreme Court upheld a previous award of \$24 million to the ex-franchisee. McDonald's continued appeals. In October 2012, the Supreme Court again decided in favor of the ex-franchiser and McDonald's paid an award, though further legal issues remain.

El Salvador is a signatory of the Bern Convention for the Protection of Literary and Artistic Works; the Paris Convention for the Protection of Industrial Property; the Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication; the World Intellectual Property Organization (WIPO) Copyright Treaty; the WIPO Performance and Phonograms Treaty; and the Rome Convention for the Protection of Performers, Phonogram Producers, and Broadcasting Organizations.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: [san.salvador.office.box@mail.doc.gov](mailto:san.salvador.office.box@mail.doc.gov)

Local lawyers list: <http://sansalvador.usembassy.gov/local-information/list-of-attorneys.html>

## **8. Transparency of the Regulatory System**

The laws and regulations of El Salvador are relatively transparent and generally foster competition. However, the government does control the price of some goods and services, including electricity, liquid propane gas, gasoline, fares on public transport, and medicines. The government also directly subsidizes water services and sets the distribution-service tariff.

Bureaucratic procedures have improved in recent years and are relatively streamlined for foreign investors. Regulatory agencies, however, are often understaffed and inexperienced, especially when dealing with complex issues. New foreign investors should review the regulatory environment carefully.

The Superintendent of Electricity and Telecommunications (SIGET) oversees electricity rates, telecommunications, and distribution of electromagnetic frequencies.

In 2003, the government amended the 1996 Electricity Law with the intention of reducing volatility in the wholesale market and thereby stabilizing retail electricity prices and encouraging new investment. The new reforms to the law allowed SIGET to develop a cost-based pricing



## U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

model for the electricity sector, which they introduced to the marketplace in 2011. The new system requires the adoption of additional long-term contracts and should alleviate various market distortions. The Salvadoran Government subsidizes consumers using up to 200 kWh monthly. The electricity subsidy costs the government upwards of \$185 million annually. Energy sector companies have warned that ever-changing subsidies and the government's inability to pay the subsidies in a timely manner have eroded the financial stability of the power sector and discouraged needed investment in new generation capacity.

The 2004 Competition Law defines a series of anticompetitive practices such as collusion to fix prices, limit production, and rig bids. Vertical arrangements, tying (conditioning the sale of one product on the sale of another), and exclusive dealing are also outlawed. Certain abuses of dominant market position are also prohibited, for example, creating barriers to entry by other firms, predatory pricing to drive out competitors, price discrimination and similar actions when intended to limit competition are illegal. The law created an autonomous Superintendent of Competition responsible for enforcing the law. The Superintendent of Competition's decisions, particularly against gasoline and energy companies, have resulted in a series of lawsuits filed against the El Salvadoran government.

El Salvador is a member of the U.N. Conference on Trade and Development's international network of transparent investment procedures: <http://elsalvador.eregulations.org/>. Foreign and national investors can find detailed information on administrative procedures applicable to investment and income generating operations including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time, and legal bases justifying the procedures.

### **9. Efficient Capital Markets and Portfolio Investment**

The Superintendent of the Financial System supervises individual and consolidated activities of banks and non-bank financial intermediaries, financial conglomerates, stock market participants, insurance companies, and pension fund administrators. Interest rates are determined by market forces and have decreased significantly since dollarization was implemented. Foreign investors may obtain credit in the local financial market under the same conditions as local investors. Accounting systems are generally consistent with international norms.

In February 2013, a new Usury Law entered into force to regulate interest rates on credit cards and loans provided by banking institutions, commercial establishments, stores, credit card issuers, pawnshops, cooperatives, credit unions, and private lenders. According to the legislation, the maximum interest rate for credit cards and loans would be 1.6 times the simple average effective rate established by the Central Bank.

El Salvador's banks are among the largest in Central America and many are owned by foreign financial institutions. The banking system is sound and generally well-managed and supervised. The banking system's total assets as of March 2014 totaled \$14.4 billion.





Under the 1999 Banking Law and amendments made in 2002, foreign banks are afforded national treatment and can offer the same services as Salvadoran banks. The law strengthened supervisory authorities and provided more transparent and secure operations for customers and banks. The law also established an FDIC-like autonomous institution to insure deposits, increased minimum capital reserve requirements, and sharply limited bank lending to shareholders and directors.

The Non-Bank Financial Intermediaries Law regulates the organization, operation, and activities of financial institutions such as cooperative savings associations, nongovernmental organizations, and other microfinance institutions. The Money Laundering Law requires financial institutions to report suspicious transactions to the Attorney General and the Superintendent of the Financial System.

The 1996 Insurance Companies Law regulates the operation of local insurance firms and accords national treatment to foreign insurance firms. Foreign firms, including U.S., Colombian, Canadian, and Spanish companies, have invested in Salvadoran insurers.

The 1994 Securities Market Law established the present framework for the Salvadoran securities exchange, which opened in 1992. The Salvadoran securities exchange has played an important role in past years in the privatization of state enterprises and more recently in securitizations and facilitating foreign portfolio investment. Stocks, government and private bonds, and other financial instruments are traded on the exchange, which is regulated by the Superintendent of the Financial System.

Foreigners may buy stocks, bonds, and other instruments sold on the exchange and may have their own securities listed, once approved by the Superintendent. Companies interested in listing must first register with the National Registry Center's Registry of Commerce.

Between 2012 and 2013, the exchange averaged daily trading volumes of about \$14.3 million. Government-regulated private pension funds, Salvadoran insurance companies, and local banks are the largest buyers on the Salvadoran securities exchange.

In 2007, the Legislative Assembly approved a Securitization Law. There have been a number of transactions worth between \$10 to 50 million executed under the Securitization Law and there are at least two firms authorized to underwrite securitizations.

## **10. Competition from State-Owned Enterprises**

El Salvador has successfully liberalized many sectors where the government previously exerted monopoly control, effectively limiting most forms of direct competition from state-owned enterprises. While energy distribution was privatized in 1999, the Salvadoran Government maintains significant energy production facilities through state-owned Rio Lempa Executive





Hydroelectric Commission (CEL), a significant producer of hydro-electric and geothermal energy.

La Geo, a joint venture between CEL and Italian-owned Enel Green Power, has exclusive geothermal rights in El Salvador. New investment in La Geo has been stunted by lengthy legal disputes between the Salvadoran government and Enel. While international arbitration proceedings have ruled in favor of Enel, the Salvadoran Supreme Court ruled in 2012 that the original geothermal concession to La Geo was unconstitutional. In April 2014, the Salvadoran Attorney General issued an order to freeze \$2 billion worth of assets belonging to the entities and individuals involved in the pending case surrounding La Geo, including Enel.

Alba Petroleos (AP) is a joint-venture between a consortium of mayors from the left-leaning Farabundo Marti National Liberation Front (FMLN) party and a subsidiary of Venezuela's state-owned oil company PDVSA. AP operates dozens of gasoline service stations across the country and has expanded into a number of other industries, including: energy production, food production, medicines, micro-lending, supermarket, bus transportation, and aviation. Because of its official relationship with the ruling FMLN party, critics have charged that AP receives preferential treatment from the government. Critics have also alleged that AP trade practices, including financial reporting, are non-transparent.

## **11. Corporate Social Responsibility**

The private sector in El Salvador, including several prominent U.S. companies, has embraced the concept of corporate social responsibility (CSR). There are a number of local foundations that promote CSR practices, entrepreneurial values, and philanthropic initiatives. El Salvador is also a member of international institutions such as Forum Empresa (an Alliance of CSR institutions in the Western Hemisphere), AccountAbility (UK), and the InterAmerican CSR Network. Businesses have created CSR programs in the workplace that provide education and training, transportation, lunch programs, and childcare. In addition, CSR programs have provided assistance to surrounding communities in areas such as health, education, senior housing, and HIV/AIDS awareness.

## **12. Political Violence**

El Salvador's 12-year civil war ended in 1992 upon the signing of peace accords. Former guerrilla groups organized themselves into the FMLN party, which has participated in elections since 1994. FMLN candidate Mauricio Funes won the presidential election in March 2009, marking the first transition of power to a left-wing party since the end of the civil war. The FMLN maintained the presidency in March 2014 after a narrow victory for Salvador Sánchez Cerén. In El Salvador, there has been no political violence aimed at foreign investors, their businesses, or their property.

## **13. Corruption**



U.S. individuals and firms operating or investing in El Salvador should take the time to become familiar with the relevant anticorruption laws in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel. U.S. companies operating in El Salvador are subject to the U.S. Foreign Corrupt Practices Act.

Corruption can be a challenge to investment in El Salvador. El Salvador ranks 83 out of 177 countries in Transparency International's Corruption Perceptions 2013 Index. El Salvador has laws, regulations and penalties to combat corruption, but their effectiveness is inconsistent. Soliciting, offering, or accepting a bribe is a criminal act in El Salvador. The Attorney General has a special office, the Anticorruption and Complex Crimes Unit, which handles cases involving corruption by public officials and administrators. The Constitution also established the Court of Accounts that is charged with investigating public officials and entities and, when necessary, passing such cases to the Attorney General for prosecution. In 2005, the government issued a code of ethics for the executive-branch employees, including administrative enforcement mechanisms, and it established an Ethics Tribunal in 2006.

The Legislative Assembly approved a new Transparency Law in 2011 in an effort to combat corruption and increase government accountability. In February 2013, President Funes appointed members to the Access to Information Institute as mandated by the law. The Institute's effectiveness, however, has not been demonstrated.

There have been some recent corruption scandals at the federal, legislative, and municipal levels. There have also been credible complaints of judicial corruption. El Salvador has an active, free press that reports on corruption.

El Salvador is not a signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. El Salvador is a signatory to the UN Anticorruption Convention and the Organization of American States' Inter-American Convention Against Corruption.

#### **14. Bilateral Investment Agreements**

CAFTA-DR, the free trade agreement among Central American countries, the Dominican Republic, and the United States entered into force for the United States and El Salvador on March 1, 2006. CAFTA-DR's investment chapter provides protection to most categories of investment, including enterprises, debt, concessions, contract, and intellectual property. Under the agreement, U.S. investors enjoy, in almost all circumstances, the right to establish, acquire, and operate investments in El Salvador on an equal footing with local investors. Among the rights afforded to U.S. investors are due process protection and the right to receive a fair market value for property in the event of an expropriation. Investor rights are protected under CAFTA-DR by an effective, impartial procedure for dispute settlement that is fully transparent and open to the public.



## U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

In 2010, a new alcohol tax entered into force in El Salvador. U.S. industry has voiced concerns that the new tax discriminates against imported alcohol, in violation of El Salvador's CAFTA-DR and WTO obligations. The El Salvadoran government has not officially confirmed its position on whether the CAFTA-DR is a multilateral agreement versus a bilateral agreement with the United States. U.S. firms have raised concerns that El Salvador may not be adhering to its CAFTA-DR obligations regarding import treatment of goods from free trade zones in other Central American countries which appear to meet CAFTA-DR rules of origin requirements. In addition, the USG has raised CAFTA-DR procurement obligation concerns with respect to the Salvadoran government's corn and bean seed distribution program.

El Salvador also has free trade agreements with Mexico, Chile, Panama, Colombia, and Taiwan. All have entered into force with the exception of the FTA with Colombia which is expected to be activated soon. El Salvador, jointly with Costa Rica, Guatemala, Honduras, Nicaragua, and Panama, signed an Association Agreement with the European Union that includes the establishment of a Free Trade Area. The agreement includes a provision for Central American countries and Panama to get access to a wider range of EU development aid. The agreement was ratified on December 11, 2012 by the European Parliament and entered into force with El Salvador in August 2013. The five Central American Common Market countries, which include El Salvador, have an investment treaty among themselves.

The free trade agreements that El Salvador has with Mexico, Chile, and Panama include investment provisions. El Salvador is also negotiating trade agreements with Canada, Peru, and Belize that will contain investment provisions. The Salvadoran government signed a Partial Scope Agreement (PSA) with Cuba in 2011 and is negotiating another with Ecuador.

### **15. OPIC and Other Investment Insurance Programs**

The Overseas Private Investment Corporation (OPIC) insures against currency inconvertibility, expropriation, and civil strife and can provide corporate project financing and special financing to small business. OPIC has a bilateral agreement with El Salvador that requires the Salvadoran government to approve all insurance applications. A new agreement is being negotiated that will eliminate this requirement. In 2006, OPIC signed an agreement with the El Salvador's National Investment and Exports Promotion Agency (PROESA) to improve outreach to U.S. small business investors in El Salvador. Because El Salvador uses the U.S. dollar, full inconvertibility insurance may be unnecessary, but investors do insure against inability to transfer funds. El Salvador is a member of the Multilateral Investment Guarantee Agency (MIGA).

### **16. Labor**

In 2012, El Salvador had a labor force of approximately 2.6 million. While Salvadoran labor is regarded as hard working, general education and professional skill levels are low. According to many large employers, there is also a lack of middle management-level talent, which sometimes



results in the necessity to transplant additional managers from abroad. Employers do not report labor-related difficulties in incorporating technology into their workplaces.

The constitution guarantees the right of employees in the private sector to organize into associations and unions. Employers are free to hire union or non-union labor. Closed shops are illegal. Labor law is generally in accordance with internationally recognized standards, but is not enforced consistently by government authorities. In 2011, several businesses expressed concerns about the government's application of labor laws, alleging a disregard of established legal procedures.

## 17. Foreign Trade Zones/Free Ports

As of April 2014, there were 16 free trade zones operating in El Salvador. They host more than 200 companies operating in areas such as textiles, distribution, call centers, business process outsourcing, agribusiness, agriculture, electronics, and metallurgy. Owned primarily by Salvadoran, U.S., Taiwanese, and Korean investors, the firms employ a labor force of approximately 71,500. The section above on Performance Requirements and Incentives outlines the benefits available to investors in these zones.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

**TABLE 3: Key Macroeconomic Data, U.S. FDI in El Salvador**

Economic Data	Year	Amount	Year	Amount	Source of data
<b>GDP</b>	Central Bank of El Salvador		International Monetary Fund		
El Salvador Gross Domestic Product (GDP) (Millions U.S. Dollars)	2013 2012	24,259 23,814	2013 2012	24,512 23,864	<ul style="list-style-type: none"> <li><a href="http://www.bcr.gob.sv/bcrsite/?cdr=23&amp;lang=es">http://www.bcr.gob.sv/bcrsite/?cdr=23&amp;lang=es</a></li> <li><a href="http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/weorept.aspx?sy=2009&amp;ey=2013&amp;scsm=1&amp;ssd=1&amp;sort=country&amp;ds=.&amp;br=1&amp;pr1.x=52&amp;pr1.y=7&amp;c=253&amp;s=NGDP&amp;grp=0&amp;a=">http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/weorept.aspx?sy=2009&amp;ey=2013&amp;scsm=1&amp;ssd=1&amp;sort=country&amp;ds=.&amp;br=1&amp;pr1.x=52&amp;pr1.y=7&amp;c=253&amp;s=NGDP&amp;grp=0&amp;a=</a></li> </ul>
<b>Foreign Direct Investment (Stock)</b>	Central Bank of El Salvador		U.S. Bureau of Economic Analysis (BEA)		

U.S. FDI in El Salvador (Millions U.S. Dollars, stock positions)	2013 2012	2,344 2,385	2013 2012	pending release 2,697	<ul style="list-style-type: none"> <li><a href="http://www.bcr.gob.sv/bcrsite/?cdr=125&amp;lang=es">http://www.bcr.gob.sv/bcrsite/?cdr=125&amp;lang=es</a></li> <li><a href="http://www.bea.gov/international/dilusdbal.htm">http://www.bea.gov/international/dilusdbal.htm</a></li> </ul>
U.S. Inbound FDI Stock as % GDP	2013 2012	9.7 10	2013 2012	n/a 11.3	See above.
<b>Foreign Direct Investment (Inflows)</b>	Central Bank of El Salvador		United Nations Economic Commission for Latin America and the Caribbean (ECLAC)		
Total FDI inflows to El Salvador (Millions U.S. Dollars)	2013 2012	140.1 481.9	2013 2012	137.2 483.6	<ul style="list-style-type: none"> <li><a href="http://www.bcr.gob.sv/bcrsite/?cdr=131&amp;lang=es">http://www.bcr.gob.sv/bcrsite/?cdr=131&amp;lang=es</a></li> <li><a href="http://interwp.cepal.org/sisgen/ConsultaIntegrada.asp?idIndicador=1824&amp;idiotoma=i">http://interwp.cepal.org/sisgen/ConsultaIntegrada.asp?idIndicador=1824&amp;idiotoma=i</a></li> </ul>
Total FDI inflows as % GDP	2013 2012	0.6 2.0	2013 2012	0.6 2.0	See above.

**TABLE 4: Sources and Destination of FDI (stock)**

2012 Direct Investment from/in Counterpart Economy Data (Stocks)					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	8,635	100%	Total Outward	6	100%
United States	2,798	32%	Nicaragua	5	88%
Panama	2,465	29%	Guatemala	0	7%
Mexico	820	9%	Costa Rica	0	3%
Virgin Islands, British	493	6%	Honduras	0	2%
Spain	280	3%	United States	0	-1%





# U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

"0" reflects amounts rounded to +/- USD 500,000.

Source: Direct data query from International Monetary Fund, <http://cds.imf.org>

## Partial List of Major Foreign Investors

AES Corporation (USA) -- Electricity distribution  
AIG (USA) -- Insurance  
Alba Petroleos (Venezuela) -- Gas station, refinery, electricity generation  
Avery Dennison (USA) -- Labeling and packaging  
Bancolombia (Colombia) -- Banking  
Bayer de El Salvador (German) -- Pharmaceutical processing, fertilizers  
Decameron International (Colombia) -- Tourism/hotels  
DELSUR (Colombia) -- Electricity distribution  
Banco Davivienda -- formerly HSBC (Colombia) -- Banking  
Citigroup (USA) -- Banking  
Scotiabank (Canada) -- Banking  
Digicel (Caribbean) -- Cellular telephone service  
Duke Energy (USA) -- Thermal electricity generation plants  
Elf (France) -- Propane gas  
Cenergica (Israel) -- Owner/operator of the Nejapa power/generating plant  
EMEL S.A. (Chilean/USA) -- Electricity distribution  
Trafigura PUMA Energy(Netherlands) -- Gas stations/small refinery at Acajutla  
America Movil (Mexico) -- Fixed and wireless telephone, retail  
Fruit of the Loom (USA) -- Apparel assembly  
Grupo Calvo (Spain) -- Tuna fishing/processing  
Hanes Brand (USA) -- Apparel assembly  
Holcim (Swiss) -- Cement  
Intelfon (Panama/El Salvador) -- Telecommunications  
International Paper (USA) -- Packaging  
Lacoste (France) -- Textiles/apparel  
Kimberly Clark de C.A. (USA) -- Paper production and distribution facility  
Maseca (Mexico) -- Corn Milling  
Max (Guatemala) -- Appliance retailing  
Petenatti (Brazil) -- Textiles  
PriceSmart (USA) -- Member discount store and supermarket  
SABMiller (South Africa) -- Beer, sodas, and other beverages  
Sara Lee Knit Products (USA) -- Apparel assembly  
Sears (U.S. franchise acquired by a Mexican firm) -- Retail  
Unopetrol El Salvador (Honduras) -- Oil refinery; Service stations/grocery markets  
Stream (USA) -- Customer service/sales call center  
Sykes (USA) -- Customer service/sales call center  
Telefonica de España (Spain) -- Cellular telephone service



TIGO (USA/Luxembourg) -- Cellular telephone service, cable television, landline, and internet  
Texaco Caribbean (USA) -- Fuel storage and lubricant blending, and service station/grocery markets  
Unifi (USA) -- Yarn  
Unisola-Unilever (UK) -- Consumer products  
WalMart (United States) -- Supermarkets

#### **19. Contact Point at Post for Public Inquiries**

- U.S. Embassy San Salvador
- Address: Final Blvd. Santa Elena, Antiguo Cuscatlán, La Libertad, El Salvador
- Email: [webmasterss@state.gov](mailto:webmasterss@state.gov)
- Website: <http://sansalvador.usembassy.gov/index.html>
- In addition, to reach the U.S. Foreign Commercial Service (FCS) Office directly, please contact FCS San Salvador via email at: [san.salvador.office.box@mail.doc.gov](mailto:san.salvador.office.box@mail.doc.gov)